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California Energy Commission
Docket Office
Attn: Docket Nos. 04-DIST-GEN-1 and 04-IEP-01
Docket Unit, MS-4
1516 Ninth Street
Sacramento, CA 95814-5504

Re: Southern California Edison Company's Comments to the Committee Final Report - Recommended Changes to Interconnection Rules

Dear Commissioners:

Southern California Edison Company (SCE) respectfully submits the following comments related to the Integrated Energy Policy Report Committee Final Report regarding Recommended Changes to Interconnection Rules (the Report). SCE appreciates the efforts of the California Energy Commission (Commission) and the Rule 21 Working Group Members in development of this Report. SCE is supportive of some, but not all, of the Committee's recommendations. As reflected below, SCE simply cannot support those proposals designed to shift risks and costs away from the generators and on to the backs of utility ratepayers without some overriding justification, which to this point, has not been identified. SCE believes that many of the proposals are the product of a workshop process dominated by the views and opinions of the Distributed Generation (DG) industry, with little time spent identifying and considering the interests of ratepayers. Although the Commission made strong and consistent efforts to publicize the activities of the Rule 21 Working Group and encourage broad participation, no ratepayer advocate group participated in the relevant workshops, and nearly all of the attendees of the regular monthly workshops represented the DG community. The resulting proposals evidence the danger of using the workshop process to develop policies which impact a broad array of customers. SCE hopes that through these comments, the Commission will have the opportunity to reevaluate those operational, cost-creating, and cost-shifting areas that impact all customers.

SCE recommends that the Committee make the following changes to the Report:

- Defer any recommendation concerning compulsory Net Generation Output Metering (NGOM) until both the Commission and the California Public Utilities Commission (CPUC) can fully assess the State's need for accurate generator output data.

- Identify the specific privacy concerns of those customers who have objected to NGOM and investigate whether those privacy interests are in fact compromised through NGOM.

- Modify the language in the disputed recommendation on pages 25-26 such that the utilities are required to provide "a detailed explanation to the disputing party" for interconnection requirements the utility proposes to impose. At the very least, the Report should clarify the current language to include "regulatory" as well as technical justifications for interconnection requirements.

- Reassess the conclusion that "any methodology preventing export from the NEM generator while the non-NEM generator is operating is inappropriate" to better reflect the legislature's intent under Public Utilities Code section 2827.

- Remove the recommendation that "the costs for infrastructure improvements needed (as determined by the local utility) to interconnect with the grid should be the responsibility of the utility with the cost recovered through rates."

Metering Issues

SCE reiterates its belief that NGOM should be compulsory for DG interconnecting to the utility grid, for administration of CPUC–approved tariffs, and for system operation and planning. The Report, however, does not adopt this recommendation. Instead, the Report finds that NGOM should be required only where the DG installation receives publicly-funded incentives or tariff exemptions. Although SCE supports this requirement, it does not go far enough in addressing the State's need for comprehensive and accurate output data.

In focusing solely on the need to monitor output when publicly-funded incentives are involved, the Report overlooks the strong likelihood that accurate output data will be needed in the future to meet California's energy goals. The Report notes correctly that the recommendations must be synergized with the outcome of other active proceedings currently underway at the CPUC, such as the Cost-Benefit Analysis in R.04-03-017 and the CPUC's Advanced Metering Infrastructure proceeding (R.02-06-001). Nevertheless, the Committee's recommendation does not accommodate future metering requirements. In that way, the Report neglects the need to measure the impacts of DG as acknowledged by the CPUC in its Interim Opinion Regarding Resource Adequacy Decision (D.04-10-035). In its discussion regarding the inclusion of Distributed Generation in resource adequacy planning, the CPUC noted:

> "Again, no party disputes that customer-side-of-the-meter DG impacts are appropriately subtracted from load forecasts. SDG&E notes that nameplate ratings are not an accurate guide to these impacts. Instead, what is important is the output that these DG facilities are actually producing. As discussed above regarding energy efficiency, what is most desirable is to be able to determine when DG facilities are producing energy so that hourly load impacts can be deducted from LSE hourly load forecasts for each month. Thus, typical patterns of energy production by classes of customers must be developed. We commend this to Phase 2." (D.04-10-035, p. 21.)

Thus, SCE believes it is premature to carve away NGOM requirements until both the CEC and CPUC can fully assess the State's need for accurate generator output data.

In support of its Recommendation to not require NGOM except where a publicly-funded subsidy is involved, the Committee concludes that the customer's right to information protection outweighs the utilities' need for accurate billing data. In reaching this conclusion, it appears that the Committee simply accepted the position of one very vocal participant who represents only a small subset of generating customers.1 This is evidenced by the fact that the Report never quite articulates what the customer privacy concerns are or how these interests would be compromised through NGOM. In other words, the Committee never tests the claim that NGOM will be used to gather customer confidential and commercially sensitive information. At a minimum, the Committee should go back and ask the following questions:

- From what threat does the generator wish to protect its generation data, and why?
- What is the sensitive information, and how will the utilities use it to their advantage?
- Why are standard utility practices of treating customer data as confidential not adequate protection?
- If allowing utilities to get customer *generation* data would be unduly intrusive, how does it differ in sensitivity from customer *billing* data metered at the point of common coupling

Dispute Resolution Process

SCE reiterates its position that the existing Dispute Resolution Process is sufficient for dealing with all types of utility disputes, including Rule 21 issues. SCE generally agrees with PG&E's comments as reflected in the Report. Although SCE is generally supportive of the consensus recommendations, SCE is concerned with some aspects of the Committee's comments on the disputed recommendations.

- SCE questions the benefit of requiring the utilities to provide the producer with a "reasonably detailed technical justification" for interconnection requirements. (Report, pp.25-26.) SCE believes this is too vague and that whether the justification is "reasonably detailed" will simply become another issue for dispute. SCE suggests this requirement should be changed to simply require "a detailed explanation to the disputing party."
- To the extent the Committee retains the current language on pages 25-26 of the Report, SCE seeks clarification of the recommendation. As first referenced at page 25, the recommendation reads: "...the utility must provide the producer with reasonably detailed technical *or regulatory* justification for interconnection requirements it proposes to impose" (emphasis added). However, the Committee recommendation at page 26 reads: "...the utilities must provide reasonably detailed technical justification...." SCE asks that if the Committee chooses to retain this language, that it also modify the recommendation at page

[1] SCE notes for the record that the large majority of its customers have not raised concerns regarding NGOM since SCE began requiring generator metering on all new installations in June 2002.

26 to include "regulatory" justifications as there are many regulatory reasons for imposing interconnection requirements.

- As to the issue of public availability of dispute results, any dispute handled through the established complaint process is public record, and therefore the current complaint process meets the recommendation that each dispute resolved pursuant to Rule 21 shall be made publicly available. However, SCE agrees that it may be useful to seek further input from the Rule 21 Working Group. Notwithstanding any Rule 21 Working Group position, SCE notes that the utilities cannot compromise existing confidentiality requirements without CPUC order.

Interconnection Initial and Supplemental Review Fees

SCE reiterates its belief that the existing fee structure should be evaluated as part of the Cost-Benefit work that the CPUC will be addressing in R.04-03-017. There are significant costs related to interconnection of DG that are borne by the utilities' other ratepayers.

Net Metering for Systems with "Combined" Technologies

SCE was supportive of the Rule 21 Working Group's effort to examine this type of generator interconnection in much greater detail than has been accomplished thus far. As SCE has stated previously, the key driver for future efforts to facilitate interconnection of more complex Net Metering systems should not be what can technically be implemented with appropriate metering and generator controls, but rather how to formulate a thoughtful policy on the extent to which Net Metering should be encouraged. Based on the Committee's recommendations, this has not been achieved.

In its wholesale endorsement of the positions argued by the City of San Diego (*i.e.* that exports from the Net Metering eligible generator in a combined installation must be accommodated under all circumstances, and all infrastructure upgrades must be paid for by all customers through rates), the Committee has avoided discussing the issue of the cost shifting that Net Metering causes. This is perhaps not surprising, if one accepts the premise that the Commission's concern is energy *supply first* and not rates or necessarily cost. A fundamental problem with this theory is that encouraging the construction of "Combined" Technology projects which export to the grid may *increase* the need for infrastructure upgrades that would otherwise not be needed. For ordinary distributed generation projects, these upgrades are charged to the customer who installs the DG.

The notion that the addition of a relatively small Net Metering eligible generator (*e.g.* a solar panel) to a large gas-fired engine installation transforms the project into one of such intrinsic ratepayer benefit that it should enjoy the full range of Net Metering exemptions from charges is a broad-brush approach that does not take into account the relative sizes of the Net Metering eligible generator and the Non-Net Metering eligible generator.

SCE objects to the Committee's conclusion on page 40 that "any methodology preventing export from the NEM generator while the non-NEM generator is operating is inappropriate." There is no justification or rationalization for the Committee to support such an overbroad statement. The State's interest in additional resources should not be an open invitation for

DG customers to shift costs to other ratepayers. Instead, the goal should be to balance the policy goals of providing Net Metering benefits to eligible self-generating customers and protecting other ratepayers from cost-shifting.

The position recommended by the Committee would encourage construction of projects in which customer electrical loads were largely served by non-renewable (*e.g.* gas fired) generation, with the renewable generation reserved to be exported to maximize the credit received under the Net Metering tariff structure. Such artificial "stacking" of the eligible generation on top of non-eligible generation under this approach makes it a renewable energy *export* generating facility rather than a *net energy metered* generating facility. It would not necessarily "reduce demand for electricity during peak consumption periods" as encouraged by P.U. Code Section 2827(a), especially because export is anticipated to occur during times other than utility peak load periods (*e.g.* weekends).

The maximum allowable capacity of DG for a given site can *already* be accommodated within the inadvertent export limitation for non-eligible generators. "Stacking" eligible generation on top of non-eligible generators to allow customers to maximize their Net Metering credit would not further the intent of Section 2827 to "enhance the continued diversification of California's energy resource mix" because non-eligible generators are typically natural gas-fired.

Allowing resource "stacking" as proposed in the Committee's recommendation appears to encourage an uneconomic dispatch of generation resources from a societal standpoint by some customers. Instead of using solar or wind to serve on-site load first – at zero fuel cost – the customer would be encouraged to serve as much load as possible with fossil fired generation first, in order to "save" renewable generation for export and maximize the Net Metering credit. Moreover, current regulations governing interconnection of customer generation do not impose any conditions on thermal efficiency – *i.e.*, the non-eligible generator could be non-cogeneration. The uneconomic dispatch inherent in this "stacking" approach also results in greater cost shifting to other utility customers because the effective cost of the "renewable" export energy (*i.e.* the full bundled utility retail rate) is typically higher than the cost at which utilities can procure renewable resources through a competitive solicitation process.

SCE also objects to the Committee's recommendation that "The costs for infrastructure improvements needed (as determined by the local utility) to interconnect with the grid should be the responsibility of the utility with the cost recovered through rates." Customers employing the use of "Combined" Technologies could game such a rule to avoid costs that would normally be borne by a customer in a non-Net Metering situation. The presence of a solar generator should not give a customer an unlimited right to avoid all system upgrade costs.

Furthermore, it is premature to recommend that costs associated with grid infrastructure improvements be the responsibility of utility ratepayers with the cost recovered through the distribution component of utility rates because there has been no Cost-Benefit analysis conducted to determine if these additional subsidies are justified in the first place. The CPUC has yet to "submit its report to the Governor and the Legislature reviewing the economic and environmental costs and benefits of net metering to customer-generators, ratepayers, and

utilities, including any beneficial and adverse effects on public benefits programs and special purpose surcharges" as required by AB 58.

As described above, this is a topic that needs more careful examination in a forum that provides for a more rational discussion and evaluation regarding appropriate policies for incorporating "Combined" Technologies than the Commission is capable of providing in this forum, to ensure an appropriate balance of Costs-Benefits for all ratepayers.

Conclusion

SCE looks forward to resolution of the issues contained in the Committee's Report in R.04-03-017.

Please do not hesitate to contact Gary Schoonyan at (916) 441-4114 if you have any questions about this matter.

Sincerely,

Manuel Alvarez by /ED

Manuel Alvarez

cc: William J. Keese, Chairman
James D. Boyd, Commissioner
John L. Geesman, Commissioner
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